PROVINCIAL CAPITAL COMMISSION

Annual Report 2006/07

BRITISH COLUMBIA
The Best Place on Earth

2007-05795/

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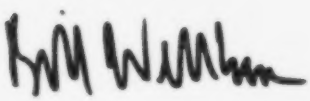
Letter of Transmittal

June 21, 2007

The Honourable Stan Hagen
Minister of Tourism, Sport and the Arts
Legislative Buildings
Victoria, British Columbia V8V 1X4

Dear Minister:

On behalf of the British Columbia Provincial Capital Commission, we have the pleasure to submit our Annual Report for the year ending March 31, 2007. The report includes audited financial statements for the year in accordance with the Budget Transparency and Accountability Act.



Bill Wellburn, FCA
Board Chair
Provincial Capital Commision

Message from the Chair

To the Honourable Stan Hagen, Minister of Tourism, Sport and the Arts:

The year just ended marks a major turning point in implementing the vision of the Provincial Capital Commission (PCC) – "connecting and celebrating the Capital with every British Columbian." The vision was put into effect by the PCC Board, which was reconstituted as the result of a change in mandate given by government in 2003. One area where this can be seen is in the development of province-wide Outreach programs. This year, following months of development, the PCC was able to roll out a series of new initiatives. These include implementing a system of Student Travel Subsidies for school groups visiting the Capital from all areas of the province, producing and telecasting the "Capital Connections" series of historical vignettes, and awarding new prizes for student achievement in filmmaking and heritage studies. In addition, the PCC developed a new unit on the Capital for use by teachers and students in BC's intermediate grades.

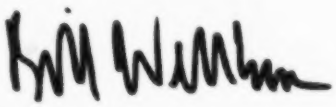
Another noteworthy achievement came in the stewardship of heritage properties, an important and long-standing responsibility of the PCC. In June 2006 the Crystal Garden reopened following more than a year of extensive restoration and structural upgrades. As a result of the Board's decision to deal head-on with unsustainable operating costs associated with this iconic building and to seek a rent-paying tenant, the citizens of this province now have an enduring asset that they can be proud of for generations to come. While the first tenant in the refurbished Crystal did not succeed in its business, the building's new tenant – the City of Victoria – promises to be very successful over the long term and will expand the capacity and economic impact of the Victoria Conference Centre.

The PCC also has stewardship of a number of key properties on Victoria's Inner Harbour. In recent years the PCC has sponsored several conferences and studies to develop a 21st-century vision for the Harbour, and we have been pleased to share all our findings with the expert panel that the Minister and Victoria's Mayor have been instrumental in assembling to move the matter forward. We are hopeful that, in the coming year, decisions on Inner Harbour revitalization and the PCC's Property Plan will make available new resources so that the implementation of our Outreach mandate can be taken to the next level.

Effective governance and good management have enabled the PCC to report this year a surplus of more than $370,000 on revenues of just over $3 million. This represents a planned multi-year turnaround in the operations of the PCC, and points us toward a successful future in balancing the complex challenges of self-sustainability, development and delivery of province-wide Outreach programs, and effective stewardship of our heritage assets. Along with the Board, our dedicated staff deserves a great deal of credit for this achievement.

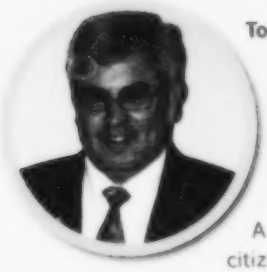
I will conclude with an accountability statement as mandated for Crown agencies. The PCC's 2006/07 Annual Report has been prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. I am responsible for ensuring that internal controls are in place so that performance information is measured accurately and in a timely fashion.

The information presented here has been prepared in accordance with the BC Reporting Principles and represents the actual performance of the PCC for the twelve months ended March 31, 2007 in relation to the February 2006 Service Plan. The measures presented are consistent with the PCC's mission, goals and objectives, and focus on aspects critical to the organization's performance. All significant decisions, events and identified risks, as of May 15, 2007, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate, direction, goals, objectives, strategies, measures or targets made since the February 2007 Service Plan was released, and any significant limitations in the reliability of data, are identified in the report.



Bill Wellburn, FCA
Chair

Message from the CEO



To Our Stakeholders:

A Capital is, in some ways, the most important place in a country, province or territory. The shareholder's mandate for the Provincial Capital Commission takes our province, our Capital and every citizen of British Columbia to mind and to heart.

A Capital reflects the history, aspirations, and democratic traditions of all the citizens of its constituency.

A Capital is a place for celebration and ceremony. It is a place to enact rituals that are significant to all its people, however diverse they may be, and that reinforce our way of government and our way of life.

A Capital must provide a sense of ownership and belonging, not just to the residents of the Capital city or region, but to every citizen in its constituency. Because it belongs to all its citizens, a Capital must be welcoming and inclusive, and must not alienate or create envy.

A Capital's setting ought to be splendidly emblematic of the geographic beauty of its entire domain. However, a Capital must transcend its physical location to penetrate the hearts and imaginations of all the people it represents.

A Capital is a place to showcase important symbols of our collective past through museums, historic sites, heritage buildings and stories. It is a place to celebrate the present and to envision and pursue the future. It should be a centre of achievement in all areas of its citizens' endeavours, including the arts, learning, justice, technology and athletics. A Capital should express the best aspirations of all its stakeholders, in all their diversity.

While several provinces and territories in Canada have created something like a Capital Commission, British Columbia was one of the first to do so. In 1956, Premier W.A.C. Bennett created the Capital District Improvement Commission, later renamed the Provincial Capital Commission. While preserving an arms-length relationship with government, the PCC has transformed itself into a self-sustaining organization. Our structure, stability and achievements are the envy of some similar organizations across the country.

In our properties, we are not managers: we are stewards. In our programs, we do not entertain: we celebrate and we educate. We are not about politics, we are about citizenship. No other agency – government or private – is mandated or positioned to do what we do.

This report shows a compact and energetic organization that serves its people well, at remarkably little cost. Our Year in Review section shows that we have embraced our new focus on Outreach: among our upcoming programs are some designed specifically to serve teachers, students and Aboriginal youth all across the province. We are eager to explore ways of finding more resources to do the job even better.

Ray Parks

Ray Parks
Chief Executive Officer

Organizational Overview

The Provincial Capital Commission (PCC) is a Crown agency of the Province of British Columbia. The PCC was first created in 1956 as the Capital Improvement District Commission with responsibility for an area that included the City of Victoria and the municipalities of Esquimalt, Oak Bay and Saanich. The District was later expanded to include a larger surrounding area. In 2003, the PCC's mandate was further broadened to include service to all British Columbians.

The PCC's activities are guided by the following vision, mission and values.

Vision

Connecting and celebrating the Capital with every British Columbian.

Mission

- Delivery of programs that connect British Columbians to their Capital and foster pride and awareness of the diverse cultures and rich history of their province
- Responsible stewardship of public assets
- A self-sustaining Crown corporation.

Values

- Act with integrity by operating with openness, fairness and transparency
- Be respectful, inclusive and accessible
- Think, plan and act long-term
- Be socially responsible in everything we do by promoting long-term financial and economic sustainability, a healthy environment and the well-being of all citizens
- Balance the needs of the Capital and the province-wide mandate
- Recognize and support the diversity of British Columbia's cultures, landscapes and history
- Manage the balance between our heritage properties and our province-wide mandate.

Organizational Structure and Enabling Legislation

The PCC operates under the Capital Commission Act with the authority that focuses principally on real property and beautification throughout the Capital Improvement District. Mr. Bill Wellburn, FCA, is Chair of the 14-member board and leads the Commission, which reports to the Honourable Stan Hagen, Minister of Tourism, Sport and the Arts.

Core Business Areas

The PCC has two core business functions:

- Delivery of Outreach programs that connect British Columbians with their Capital, and the Capital with all British Columbians
- Stewardship of heritage, Inner Harbour and open space properties.

Business Model

The primary business of the PCC is to connect and celebrate the Capital with all British Columbians through a province-wide delivery of outreach and engagement programs. As a self-sustaining crown corporation, the PCC finances this goal through optimizing net income from its property assets.

Benefits to British Columbia

The work of the PCC benefits the public by:

- Connecting British Columbians with their Capital through innovative Outreach initiatives
- Taking the Capital to British Columbia and bringing British Columbians to the Capital
- Providing responsible and sensitive stewardship to many provincially-owned properties and heritage buildings that celebrate the Capital.

Sponsorship of Community Programs

"The PCC's support of the travel and related expenses of judging has helped us to educate 14 volunteer judges and get 10 of them to various locations throughout BC . . . Again we thank the PCC for helping us deliver this positive community-driven program to many British Columbians."

Organizational Overview

Markets Served

The PCC serves the following principal markets:

- Citizens of British Columbia
- Communities throughout the province
- Visitors to the Capital
- Teachers, students and youth
- Interested parties seeking information on the Capital.

Products and Services Provided

These include:

- Programming to assist student groups from across the province to visit the Capital
- Partnerships with businesses, not-for-profits and the tourism sector to boost awareness and visitation to the province's Capital
- Educational and research support for students and teachers.

Partners, Clients and Stakeholders

The PCC operates in an environment that includes other parties with mandated responsibilities, visions and interests including: municipalities, other government departments, First Nations, other agencies such as the Greater Victoria Harbour Authority and the private sector.

Location

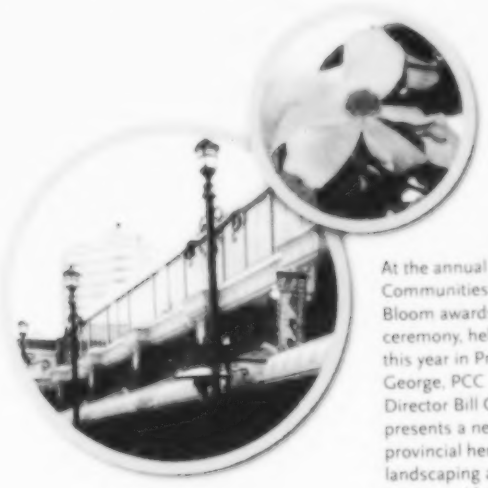
The PCC's headquarters is located at 613 Pandora Avenue in Victoria, BC. A number of programs for schools and the general public are offered at St. Ann's Academy located at 835 Humboldt Street in Victoria, BC.

Structure

The Commission employs a staff of 12 led by Ray Parks, Chief Executive Officer. Management and staff implement PCC strategies related to Outreach and Engagement, property assets and corporate support. In-house expertise and capacity requirements are supplemented by other agencies and the private sector.

"The Capital Online," Grade 4/5 Social Studies unit
"It was a pleasure working on this project with everyone involved. For too long, others have taken the liberty of writing about Songhees' history and people without actually consulting the Songhees people. Thanks to all for asking me to participate."

Year in Review



First applications are received for the PCC's new province-wide

Gala reopening of the refurbished Crystal Garden after a year of renovations. Capital improvements were made through an innovative lease agreement.

Government House hosts a reunion of past and present PCC Board members, to celebrate the PCC's 50th anniversary.

At the annual BC Communities in Bloom awards ceremony, held this year in Prince George, PCC Director Bill Oppen presents a new provincial heritage landscaping award sponsored by the PCC.

PCC's new

is offered at 13 regional Historica Fairs across the province.

PCC sponsors children's entertainment at the Capital's annual Canada Day celebration and the daytime stage at Folkfest, the Capital's multicultural festival that attracts many visitors from around the province.

Summertime PCC-sponsored events in the Capital include the Swiftsure Yacht Race, Dragon Boat Festival, Classic Boat Festival, and Firefighters Challenge.

PCC staff and board make a 3-day Outreach visit to the West Kootenay region, establishing many new contacts in face-to-face-meetings in Nelson, Trail and Castlegar.

Premier Campbell and Minister Hagen are invited to meet with the PCC Board to discuss progress in implementing the PCC's province-wide mandate and services.

Community Visits

"We have a beautiful capital and one we should be proud of – we should look at ways to improve the relationship and just feel connected to it"

PCC receives second set of Student Travel Subsidy applications, which shows a sharp increase in program participation. More than in travel subsidy is approved, to help over from over visit their Capital.

PCC staff attend a Seventh Generation Club gala in Vancouver to begin developing new programs aimed specifically at Aboriginal youth.

The City of Victoria submits a proposal to assume the long-term lease of the Crystal Garden.

Winners are announced of a new PCC-sponsored student filmmaking award, as part of the Victoria Independent Film and Video Festival. The winning students receive their prize from Minister Hagen and they and their families are congratulated in the Legislature.

PCC Board formally approves assignment of the Crystal Garden lease to the City of Victoria.

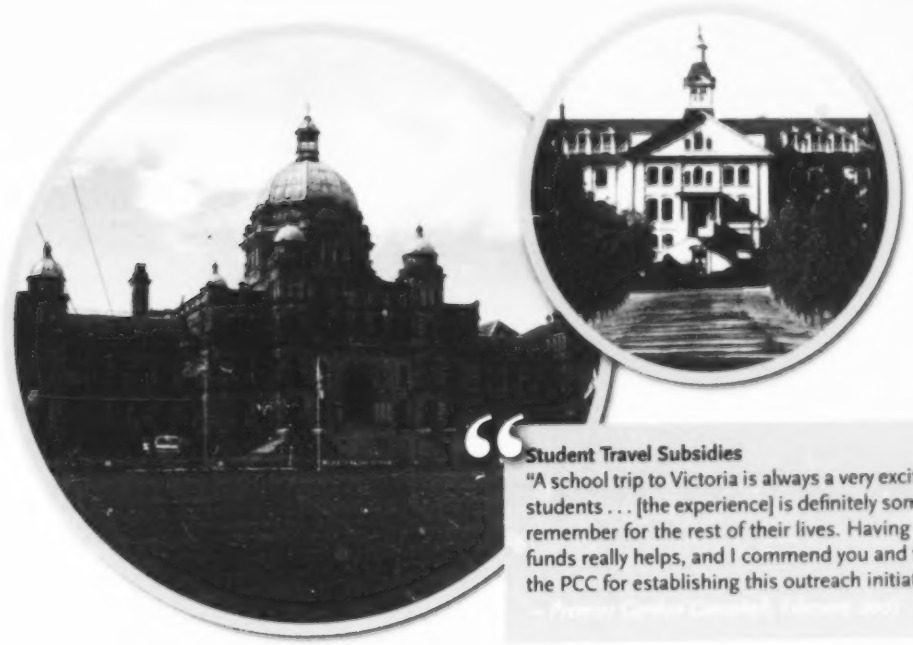
In the weeks leading up to Halloween, PCC staff offer Ghost Tours & educational programs at St. Ann's Academy.

Telecast begins of the PCC's new series of 2-minute historical vignettes entitled "Capital Connections". One new vignette is aired each week for 12 weeks on the Shaw cable network, penetrating a million BC homes.

PCC sponsors a first annual awards banquet for the BC Youth Parliament, with staff and Board in attendance.

PCC sends two "Capital ambassadors" to play in a minor hockey tournament as part of Hockey Day in Canada in Nelson, BC – the first time ever that this national event is held in British Columbia.

Thanks to prudent fiscal management by staff and Board, the PCC shows a year-end surplus of on increased revenues of over



Student Travel Subsidies

"A school trip to Victoria is always a very exciting time for the students . . . [the experience] is definitely something they will remember for the rest of their lives. Having access to travel funds really helps, and I commend you and the members of the PCC for establishing this outreach initiative."

Performance Reporting

The ten performance measures contained in this report have been approved by the Board of Directors to highlight the PCC's most crucial aspects of performance. The targets and subsequent results provide meaningful insight and discipline into assessing the PCC's progress toward achieving its stated vision, delivering on its mission and living its values.

Continuous Improvement of Performance Reporting

The performance measures used are not static – the PCC is committed to continuous improvement of its performance measures and the assessment of results. The Board of Directors will continue to ensure that the course toward fulfilling the stated mission, vision and corporate goals is maintained and its values are upheld. The PCC is committed to continuously work toward improving and developing new or refined strategic goals, strategies, performance measures and targets.

In an effort to report out on the targets that are the most relevant to external audiences, this section reports on performance based on goals in the 2007-10 Service Plan, which are better defined compared to the 2006-09 Service Plan.

Strategies:

- Implement a series of Outreach programs and communications strategies to connect children and youth to their Capital and engage them in activities that manifest this connection
- Assess the impact and cost/benefit of Outreach strategies through internal monitoring and external surveys, and redesign or refine the products and processes accordingly
- Reach out to Aboriginal peoples by developing new programs, facilitating opportunities and working in partnership with representative bodies
- Implement "signature programs" that will be strongly identified as the corporate mark of the PCC
- Connect the regions to the Capital by providing opportunities and support for having the Capital represented in the regions and a meaningful presence of the regions in the Capital
- Use the province-wide celebration of BC2008 as a vehicle to launch or expand priority programs.

Measure 1: Description and cumulative number of new Outreach programs				
Past performance	**2006/07 performance**		**Future performance**	
2005/06 2 new initiatives: Student Travel Subsidy, pilot Outreach visit to the City of Dawson Creek.	**Target** 4 new initiatives (cumulative)	**Actual** initiatives added include: "Capital Connections" TV vignettes and the "Capital Online" for BC schools	**2007/08** 6 new initiatives (cumulative)	**2008/09** 8 new initiatives (cumulative)

Importance: A diverse range of ongoing Outreach programs must be developed to achieve the PCC's vision of "connecting and celebrating the Capital with all British Columbians," given the diverse nature of the Province's geography, history and population.

Measure 2: Percentage of BC population aware of the PCC and its role in connecting British Columbians with their Capital			
Past performance	**2006/07 performance**		**Future performance**
2005/06 15%	**Target** 17%	**Actual** 16%*	To be replaced with new measures (see below)

Measure 3: Percentage of BC population with a sense of pride and history in our provincial Capital			
Past performance	**2006/07 performance**		**Future performance**
2005/06 77%	**Target** 79%	**Actual** 78%*	To be replaced with new measures (see below)

Measure 4: Participant and community assessment of the quality and effectiveness of PCC Outreach programs				
Past performance	**2006/07 performance**		**Future performance**	
2005/06 New measure	**Target** Baseline to be established	**Actual** N/A	**2007/08** To be reported annually	**2008/09** To be reported annually

Importance: Feedback from communities around the province is essential to tailoring the PCC's Outreach programs to the needs and wants of the people. This qualitative measure to assess customer satisfaction is new this year and is represented by feedback that appear on pages 6-9 and 19.

Note: The PCC's new 2007-10 Service Plan replaces Measures 2 and 3 above with the following to be reported beginning in the 2007/08 fiscal year:

Measure 2: Level of participation in PCC Outreach programs targeted for children and youth				
Past performance	**2006/07 performance**		**Future performance**	
New measure	**Target** Baseline to be established	**Actual** N/A	**2007/08** +5% from baseline	**2008/09** +7% from baseline

Importance: PCC Board has directed staff to emphasize programs for children and youth: they are the future of our Province.

Measure 3: Number and geographic location of communities participating in PCC Outreach and PCC-sponsored events and activities				
Past performance	**2006/07 performance**		**Future performance**	
New measure	**Target** Baseline to be established	**Actual** N/A	**2007/08** +5% from baseline	**2008/09** +7% from baseline

Importance: To achieve the Vision of the PCC, the effect of Outreach programs must reach far beyond the Capital region, into all parts of the Province.

* Variation of actual measure from target is within statistical error intrinsic in survey methods.

Strategies:

- Identify opportunities to optimize revenue from property assets
- Secure long-term tenant for the Crystal Garden
- Review property portfolio to ensure government's strategic objectives are being met
- Review those buildings and properties that are expense generating and implement plans to move toward a neutral or positive position
- Follow sound risk management practices by implementing plans to manage risks that could result in loss of value, revenue or cost exposure to the PCC through setting priorities for mitigation strategies considering cost/benefit implications
- Complete seismic and structural upgrade of the CP Terminal Building and Tourist Information Centre
- Link remediation of the Stores Building to Inner Harbour development plans
- Continue stewardship role of PCC-owned properties on the Capital's Inner Harbour and elsewhere.

Measure 5: Revenues from all corporate assets

Past performance	2006/07 performance		Future performance	
2005/06	Target	Actual	2007/08	2008/09
$2.6 million	$2.9 million	$3.1 million	$3.1 million	$3.125 million

Importance: Achieving revenue targets is a measure of performance in optimizing revenues from property assets. Revenue growth is essential in expanding available resources for the province-wide delivery of outreach programs. This measure was brought forward from previous service plans.

06/07 Performance: Compared to target, higher actual revenue includes increased tenant income from the Visitor Information Centre and CPR Steamship Terminal upper floors, and increased parking lot revenue.

Measure 6: Qualitative improvements to property management

Past performance	2006/07 performance		Future performance	
2005/06	Target	Actual	2007/08	2008/09
5 new improvements	>5 new improvements	9 new improvements	>5 new improvements	>5 new improvements

Importance: Qualitative improvements in property management are a basis for measuring the PCC's commitment to continuous improvement in meeting public expectations for stewardship over its property assets. These assets include heritage buildings, future development sites, parks and open space properties. Targets are based on the scope of the property inventory, available resource capacity, best practices and cost-benefit considerations. This is a new measure for 2006/07, but was applied to current and past performance. A target of five improvements per year has been established to measure performance, and will be revisited annually.

06/07 Performance: Actual improvements implemented include the rationalization of contracted property maintenance resources, cost savings efficiencies, capital maintenance and safety improvements, and improvements to lease and license agreements.

Measure 7: Percentage of occupied lease space in heritage buildings

Past performance	2006/07 performance		Future performance	
2005/06	Target	Actual	2007/08	2008/09
82%	>90%	92%	>95%	>95%

Importance: The percentage of occupied lease space complements Measure 5 by demonstrating the effectiveness of managing property assets to optimize revenues. Core properties related to this measure include the Crystal Garden, Visitor Information Centre, and the Belleville Street properties – CPR Steamship Terminal, water lot, ferry terminal facilities, and the Stores Building. This measure is a refinement of the previous measure of the number of buildings fully utilized.

06/07 Performance: Actual performance was better than target as a result of achieving full occupancy of CPR Steamship Terminal building. The future target of 95% is based on full utilization of all properties with the exception of the Stores Building, which requires significant structural remediation to be commercially viable.

Strategies:

- Fully implement Board Resourcing and Development Guidelines
- Continue with policy-setting agenda for the Board
- Adopt best practices standards for management and financial reporting and monitor accordingly
- Conduct annual evaluations of the Board, CEO and Board Chair
- Establish budget targets based on available financial resources.

Measure 8: Qualitative improvements in business processes and governance				
Past performance	**2006/07 performance**		**Future performance**	
2005/06	**Target**	**Actual**	**2007/08**	**2008/09**
New measure	Baseline to be established	Report below	To be reported annually	To be reported annually

Importance: Qualitative improvements in business processes and governance is a new measure included in the current Service Plan. Measuring performance in this area is important to achieving continuous improvement and efficiency in business operations and governance. This replaces the previous performance measure regarding Board Resourcing and Development Office Guidelines that have been achieved.

06/07 Performance: In 06/07, four qualitative improvements were implemented. Governance improvements included efficiencies in Board and Committee meeting schedules to more effectively align with business requirements, and refinements to policy and procedures regarding public input. Improvements to business operations included operational efficiencies at head office, and progress on documentation of operational policies and procedures in various subject areas.

Measure 9: Board governance and corporate support costs as a % of budgeted revenues				
Past performance	**2006/07 performance**		**Future performance**	
2005/06	**Target**	**Actual**	**2007/08**	**2008/09**
14%	<15%	14%	<15%	<15%

Importance: Board governance and corporate support costs as a percentage of budgeted revenue is a new measure. The importance of this measure is to ensure that the cost of governance and corporate administration is proportional to the size and scope of the operation and revenue base. A benchmark of 15% has been initially established, and will be revisited in subsequent years. Currently, Board members perform their duties as volunteers and are reimbursed for out-of-pocket expenses.

06/07 Performance: Actual costs were managed within target for 06/07 and the prior year.

Measure 10: Self-sustaining operations				
Past performance	**2006/07 performance**		**Future performance**	
2005/06	**Target**	**Actual**	**2007/08**	**2008/09**
Achieved for operations	Achieve budget	Achieved budget	Achieve budget	Achieve budget

Importance: This new measure has been added to formally establish that the PCC will achieve the goals in its Service Plan through prudent management of available financial resources within its approved budget.

06/07 Performance: Actual operating results reflect the expansion of Outreach and program delivery, and exceeding targets set for increasing revenue from property assets. Completion of building remediation for the Crystal Garden and capital maintenance for other properties was also achieved within approved plans.

Risks and Sensitivities

Risk management encompasses all activities the PCC undertakes in order that risks are identified, understood and managed so that strategic and operational objectives will be achieved. Strategic and business planning feature prominently among these activities. Senior management identifies risks through scanning and reviewing the PCC's strengths, weaknesses, opportunities and threats as part of the annual operations planning process. The development of strategies to achieve these objectives and the performance measurement system used to track progress provide significant assurance that expected results will be achieved and that mitigation strategies have been utilized to the fullest extent possible.

The PCC's risk management activities also consist of clearly communicated authorities and accountabilities and a range of policies and procedures. The following table summarizes the PCC's operational risks and sensitivities and mitigation strategy for each.

Area of Risk	Risk/Sensitivity	Mitigation
Outreach	Within the self-sustaining model, funding for Outreach programs is dependent on net revenues from commercial properties	Revenue growth from property assets exceeded budget targets for 06/07. Spending on Outreach doubled in 06/07 to $263,000, with the 07/08 budget increasing to $400,000. Future expansion of Outreach to be linked to partnership opportunities with government and stakeholders, and additional revenue opportunities from PCC property assets.
Property – Capital Maintenance	Heritage building remediation is conditional on source financing	Crystal Garden completed; engineering assessments completed for the Visitor Information Centre, CPR Steamship Terminal and the Stores Building. CPR Steamship Terminal and Stores Building to be linked to Inner Harbour redevelopment plans, pending further direction from the provincial government. Visitor Information Centre seismic remediation is under review, and will be initiated subject to required approvals and available funding.
Property – Tenant Income	Tenant income is sensitive to building occupancy and rent from percentage of sales, where applicable.	Budget targets for revenue is based on conservative assumptions. Percentage of sales is less than 2% of total revenue. The majority of leases are long-term agreements with established tenants. Any potential short-term loss of revenue will be managed through new revenue initiatives or expenditure restraint, as required.
Property – Tenant Income	Belleville property revenue streams may be impacted by future Inner Harbour development	The status of the Belleville properties and Inner Harbour development plans is currently under review by an independent task force. Pending further direction from the provincial government, potential impacts on PCC revenues will be taken into consideration in future planning.
Staffing	Succession planning – 50% of PCC staff are eligible for retirement within 5 years	The PCC Board has a senior management team consisting of the CEO, CFO and Director of Outreach to facilitate succession planning and provide management capacity. Operational staff capacity is currently supplemented with contracted support resources as required to meet business requirements. Future vacancies will be filled through recruitment or alternative service delivery models.

Overview

The Provincial Capital Commission has a 14-member Board of Directors pursuant to the Capital Commission Act. Eight members including the Board Chair are appointed by Order in Council and six are appointed by the four core municipalities of Greater Victoria (two from Victoria, two from Saanich, and one each from Oak Bay and Esquimalt). The Board of Directors governs the PCC under the Capital Commission Act. Day-to-day management of the PCC is delegated by the Board to the CEO.

Government has established guiding principles on corporate governance for its Crown agencies that describe roles, responsibilities and accountabilities. A Shareholder's Letter of Expectations describes the relationship between the government as shareholder and the PCC on issues of mandate, performance expectations, public policy and strategic priorities. This letter is reviewed regularly, updated as required and signed by the Chair on behalf of the Board of Directors of the PCC and by the Minister of Tourism, Sport and the Arts as the government's representative. The letter can be found on our website at: http://www.bcpcc.com/archive/sle_pcc_aug18_2006.pdf

Governance and Disclosure Guidelines

Best Practice Guidelines on Governance and Disclosure were issued by government in February 2005 and organizations were requested to meet the disclosure standards by April 2006. The PCC has complied with all 12 disclosure requirements. The disclosure includes terms of reference for the Board and its committees, the Chair and the CEO. Director biographies, director attendance records, the number of board and committee meetings held during the year and Board minutes are also disclosed. This information can be found at: http://www.bcpcc.com/board/governance.htm

Governance Principles

Renewal

Board recruitment is guided by a forward-looking definition of the skills and expertise needed to govern the PCC in achieving its mandate. The Chair, Vice-Chair and six other Order-In-Council appointees are chosen according to the government's merit-based appointment process, which targets an open, transparent and consistent appointment process. The six municipal representatives are appointed directly by their municipality.

Orientation

The Board Chair and Governance Committee Chair provide new directors with a detailed presentation on the PCC's enabling legislation, PCC history, governance processes, Service Plan, and current issues. Senior management provides incoming directors with an understanding of the PCC's day-to-day operations.

Continuous Governance Improvement

Following the principle of continuous improvement, Board performance is evaluated annually to ensure that the Board of Directors performs its due diligence and policy oversight role in the most effective manner.

With the benefit of ongoing examination and awareness of best practices, Directors are able to monitor the effectiveness of its governance framework. The Board understands that while process and structure drive good governance, success can only be assured when the appropriate behaviours, attitudes and leadership are demonstrated at all levels of the organization.

Independence

Board members are required to act in the best interest of the PCC with honesty, integrity and in good faith. The PCC requires that each new Director review and acknowledge his or her understanding of the principles expressed in the Conduct of Ethical Standards.

Management Relationship

Directors engage with management in strategic planning sessions and approve the PCC's Service Plan. The Annual Operating Plan is presented by management and approved by the Board. The CEO, CFO and Director of Outreach and Engagement report to the Board and committees on current issues and projects and respond to questions and discussion. The Board reviews corporate performance quarterly against objectives and targets outlined in the Service Plan.

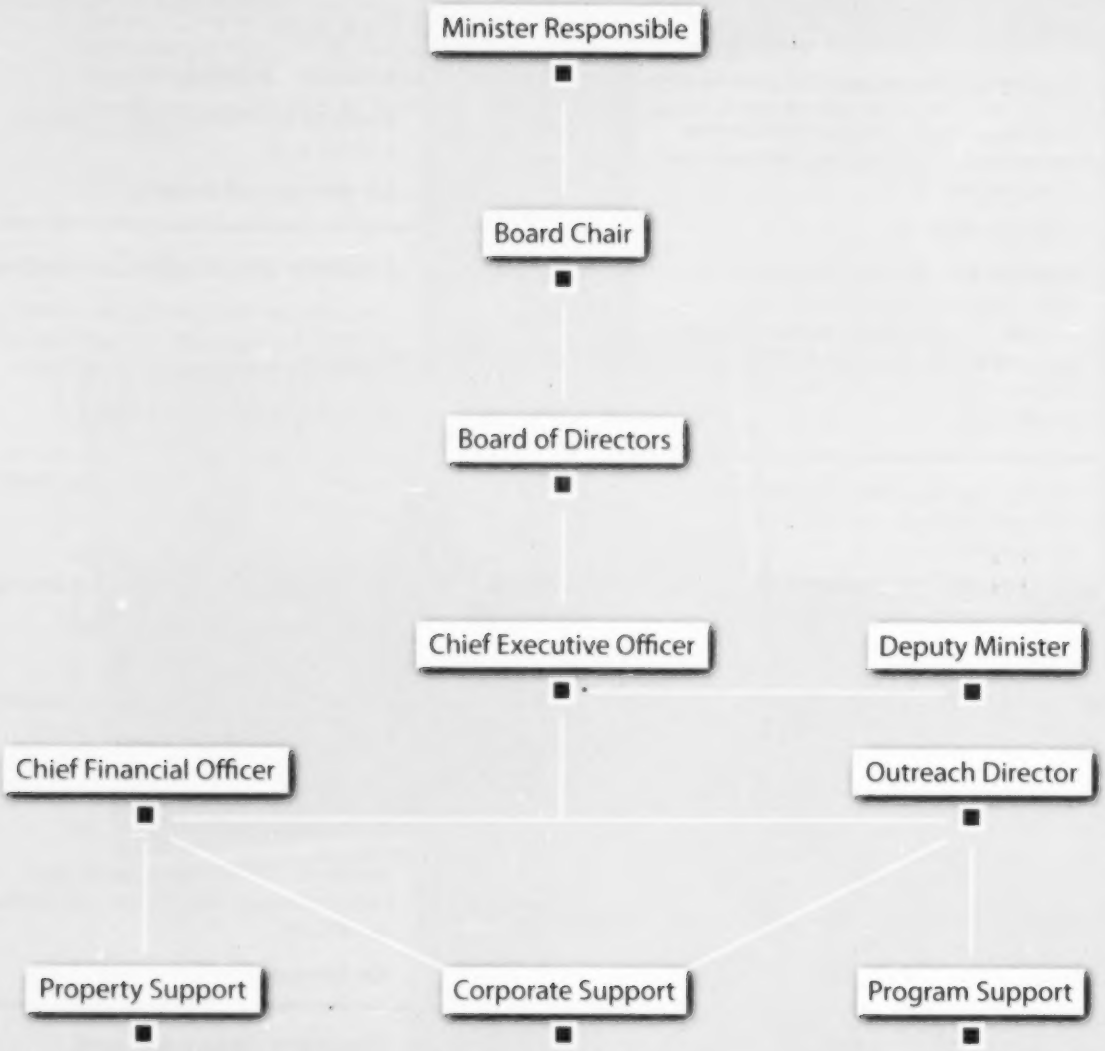
Directors of the BC Provincial Capital Commission

Director	Position	From	Appointed
Bill Wellburn	Chair	Victoria	Order in Council
Beth Campbell	Vice Chair	Penticton	Order in Council
Basil Boulton	Director	Township of Esquimalt	Municipal Representative
Barbara Brink	Director	Vancouver	Order in Council
Allan Cassidy	Director	District of Oak Bay	Municipal Representative
Jane Durante	Director	Vancouver	Order in Council
Chris Fairbank	Director	Nelson	Order in Council
Robert Gillespie	Director	District of Saanich	Municipal Representative
Rob Hunter	Director	Victoria	Order in Council
Pamela Madoff	Director	City of Victoria	Municipal Representative
William Oppen	Director	Dawson Creek	Order in Council
Matt Vickers	Director	Vancouver	Order in Council
Leif Wergeland	Director	District of Saanich	Municipal Representative
Geoff Young	Director	City of Victoria	Municipal Representative

Senior Management Team

Name	Position
Ray Parks	Chief Executive Officer
Rick Crosby	Chief Financial Officer
Denis Johnston	Director, Outreach and Engagement

Organizational Structure



Board Governance Structure

Board of Directors

Provides strategic direction and oversees the conduct of PCC business and activities of management

Chair: Bill Wellburn

Members: Basil Boulton, Barbara Brink, Beth Campbell, Allan Cassidy, Jane Durante, Chris Fairbank, Robert Gillespie, Rob Hunter, Pamela Madoff, William Oppen, Matt Vickers, Leif Wergeland, Geoff Young

The PCC has mandated four committees with specific responsibilities and accountabilities:

Executive Committee

Sets agendas for Board meetings and planning sessions, provides a forum for initial review of policy proposals and initiatives brought forward by management, leads the annual review of the CEO's performance and makes recommendations to the Board.

Committee Chair: Bill Wellburn

Members: Rob Hunter, Beth Campbell, Barbara Brink

Key Management Resource: CEO

Finance and Audit Committee

Oversees the PCC's real estate inventory, financial management and reporting, and makes recommendations to the Board.

Committee Chair: Rob Hunter

Members: Allan Cassidy, Chris Fairbank, Robert Gillespie, Geoff Young, Bill Wellburn (ex-officio)

Key Management Resource: CFO

Governance Committee

Reviews governance policies and procedures, oversees an annual evaluation of the Board, Board Chair and Board Committees, and makes recommendations to the Board.

Committee Chair: Beth Campbell

Members: Jane Durante, Pam Madoff, William Oppen, Matt Vickers, Bill Wellburn (ex-officio)

Key Management Resource: CEO

Program Resource and Communications Committee

Provides advice to management in developing PCC programs, oversees the implementation and effectiveness of programs, and makes recommendations to the Board.

Committee Chair: Barbara Brink

Members: Basil Boulton, Jane Durante, Chris Fairbank, William Oppen, Matt Vickers, Bill Wellburn (ex-officio)

Key Management Resource: Director, Outreach and Engagement

Alignment with Government's Strategic Plan

The Provincial Capital Commission supports the Provincial Government's goal of making British Columbia the best educated, most literate jurisdiction on the continent.

PCC Alignment:

- Outreach programs address and encourage knowledge of British Columbia's rich history and diverse cultures
- Outreach priorities include new programs focused on Aboriginal youth
- The PCC operates a National Historic Site, St. Ann's Academy, which offers interpretive and education programs
- Participation in planning BC 2008 activities will provide opportunities to educate citizens and visitors about BC's rich history.

Student Travel Subsidies

"I cannot begin to express my excitement, my gratitude and my appreciation upon receiving your letter stating that our application was approved for our trip to Victoria in June. You do not know what this means to be able to send over 2/3 of our students in our small school in Port Alice to explore our Island and Victoria.

I cannot wait to tell the students later this afternoon! Thank you so much again. I can't stop smiling! Have a great day, cause you sure made mine!"

Management Discussion and Analysis

This Management Discussion and Analysis of the Provincial Capital Commision should be read in conjunction with the financial statements and accompanying notes. Amounts reported may be rounded for discussion purposes.

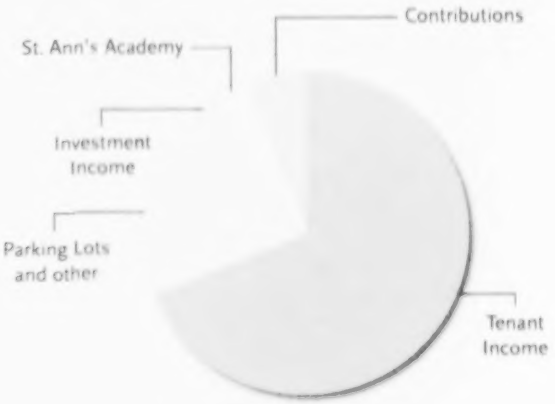
Operational Overview

As part of the annual PCC Service Plan update, the Board approves a three-year financial outlook for revenues, expenses, investment in capital assets and reserves (also referred to as retained earnings). Based on anticipated revenues, the PCC plans for expenses required to achieve the goals in its Service Plan. Revenues and expenses are managed on a self-sustaining basis.

Revenue is primarily generated from PCC property assets and is used to fund Outreach programs. This includes tenant income received through lease and license agreements, and revenue from future development sites on the Inner Harbour currently used for parking lots. These two sources account for almost 90% of total revenue. Revenue is also received through St. Ann's Academy Interpretive Centre, investment income on cash and short-term investments, and contributions. Revenue from deferred capital contributions relates to assets that were divested from or funded by the federal and provincial governments in prior years. In accordance with generally accepted accounting principles, the initial contributions were deferred and a portion is recorded as revenue each year to match the amortization expense of the related asset acquired.

Overview of 2006/07 actual revenue:

Tenant Income	$2,123,472	69%
Parking Lots and other	$578,972	19%
St Ann's Academy	$104,530	3%
Investment Income	$96,109	3%
Contributions	$185,697	6%
	$3,088,780	100%



Expenses are aligned with the Service Plan goals. A description of expenses for each goal is as follows:

- **Programs:** includes outreach, program delivery administration, and the operation of St. Ann's Interpretive Centre.
- **Properties:** includes property management administration ($527,112), and operating ($625,169) and amortization ($328,024) expenses for all properties, excluding St. Ann's Academy and the PCC head office at 613 Pandora Avenue, Victoria. Operating expenses include utilites, maintenance and insurance.
- **Board Governance and Corporate Support:** includes Board and Committee meeting expenses and corporate support administration including operating expenses for head office.

Overview of 2006/07 actual expenses:

Programs	$864,861	32%
Properties*	$1,480,305	54%
Board and Corporate Support	$373,194	14%
	$2,718,160	100%

*Total expenses include $528,000 directly offset by revenue from deferred contributions and tenant income received for operating costs.

The PCC's property assets are located within the Capital region and have an assessed value in excess of $100 million. They include heritage buildings, Inner Harbour development sites and ferry terminals, as well as parks and open space properties along the view corridors to the Capital. Building remediation and capital maintenance is financed from the Commission's retained earnings(reserves), contributions from the federal and provincial governments, and tenant contributions. Capital projects over $200,000 require the authorization of the provincial government through Order-in-Council.

Financial performance for 2006/07 was planned on the following key principles:

- Conservatism in revenue assumptions.
- Expansion of Outreach and program delivery through revenue growth and opportunities for cost savings efficiencies.
- Managing completion of the Crystal Garden building remediation to facilitate a planned June 2006 opening.
- Managing capital maintenance priorities within budget using a risk-based approach.

Consolidated Financial Summary ($ thousands)	2003/04 Actual*	2004/05 Actual*	2005/06 Actual	**2006/07 Plan****	**2006/07 Actual**	2007/08 Revised Forecast**
Revenue	3,557	3,181	2,580	**2,900**	**3,088**	3,100
Expenses	3,340	3,672	2,494	**2,850**	**2,718**	3,050
Excess *(deficiency)* of revenue over expenses from operations	217	(491)	86	**50**	**370**	50
Greenways/Beautification Program expenses funded from restricted net assets	(246)	(183)	(105)	**(151)**	**(35)**	(95)
Net decrease *(increase)* in investment in capital assets	(539)	(210)	(907)	**(192)**	**(206)**	107
Reserves, end of year *(restricted and unrestricted net assets)*	2,519	1,635	709	**800**	**838**	900
Full-time Equivalents *(base positions)*	24	17	11	**12**	**11**	12

* Gross revenue and expenses included the operation of the Crystal Garden Conservation Centre to September 2004.

** Plan amounts reported for Greenways/Beautification and Investment in Capital Assets have been updated based on 2005/06 and 2006/07 actual results.

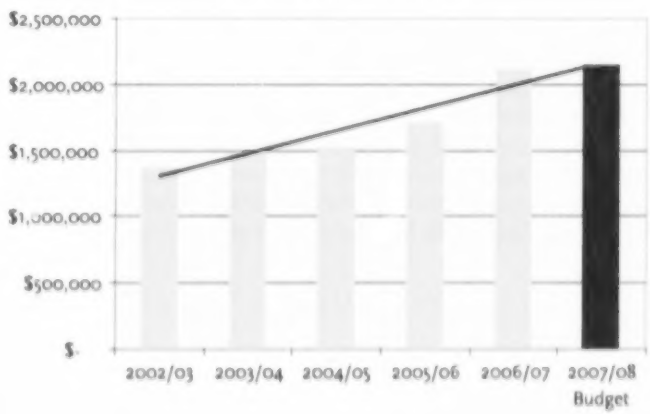
Highlights of 2006/07 Financial Performance

For the year ending March 31, 2007, the PCC's actual financial performance was better than planned.

Highlights include:

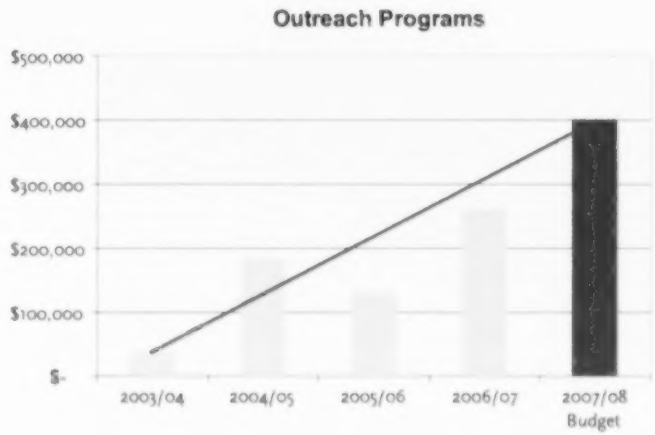
- Operating surplus: a surplus of $370,000 was realized on revenues of $3.089 million and expenses of $2.718 million.
- Revenue: Total revenue of $3.088 million is up more than $500,000 or 20% from the prior year, driven by a 25% increase in tenant income. Since 2002/03, tenant income from all PCC properties is up more than 50%.

Tenant Income

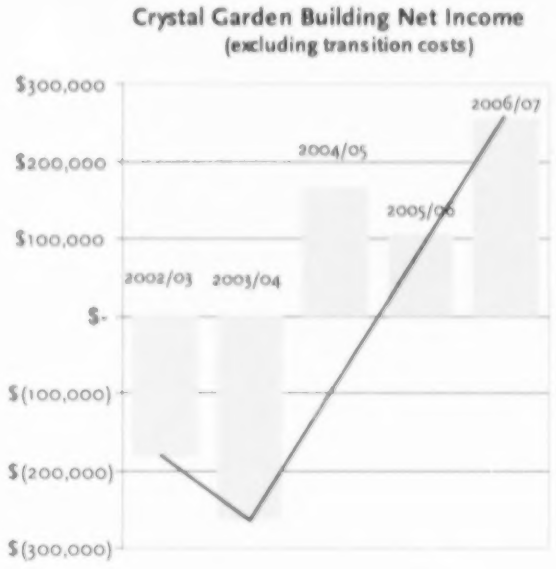


Management Discussion and Analysis

- **Expenses:** Total expenses of $2.718 million for all core business activities were managed within the approved plan of $2.850 million, with $1.020 million budgeted for Programs. Actual program spending in 2006/07 increased from $700,000 to $865,000, incluing a planned 100% increase for new Outreach initiatives to $263,000. These figures do not include in-kind support valued at $22,000, representing the use of PCC properties provided for various community programs and events.



- **Crystal Garden:** For the year ended March 31, 2007, the building generated a net surplus of $257,000. Note 10 to the financial statements provides an overview of financial performance and the events regarding the closure of BC Experience and subsequent assignment of the lease to the City of Victoria as an extension of the Victoria Conference Centre. The turnaround in the Crystal Garden's financial performance since the former PCC-operated attraction was closed in September 2004 is illustrated in the graph at right.



- **Investment in Capital Assets:** The remediation of the Crystal Garden was completed in 06/07 at a total cost of $3.5 million. Additional capital maintenance of $100,000 on other properties was managed within budget. This included replacement of the elevator at the Tourist Information Centre and stairs at the Reid Site parking lot, and capital maintenance at 613 Pandora head office.
- **Reserves:** Total restricted and unrestricted net assets increased to $838,000 at year-end, with $95,000 restricted for the completion of the South Coast Trail Greenways project in Esquimalt in 2007/08. An additional $1.122 million is held as deferred operating contributions from Transport Canada restricted for the Belleville Port Facility.
- **Full Time Equivalents (FTE's):** Compared to the authorized staffing level of 12 FTE's, actual staffing of 11 FTE's was a result of recruitment lag. Half of the authorized FTE's are dedicated to programs (6), with the balance in support of properties (3) and corporate administration (3).

2006/07 Actual versus Planned Results

The current year operating surplus of $370,620 exceeded the planned budget surplus of $50,000. Compared to the 2006/07 Plan developed in 2005, the primary reasons for this variance were higher revenues and lower than planned expenses. Higher actual revenues were realized from tenant income, parking and investment income. Expense savings were related to salaries and benefits from recruitment lag, and Outreach commitments to be expensed in 07/08.

2006/07 Actual versus Prior Year Results

Overall, both revenue and expenses were up compared to the prior year, as planned, for 2006/07. As noted, actual revenue outperformed plan assumptions, while the increase in actual expenses was within plan. Year over year, expenses of $2.7 million were up $200,000 or 9%.

Effective April, 2006, PCC excluded and union staff received a 2.5% wage increase negotiated by government. A further 3% is due April, 2007.

2007/08 Financial Outlook: Looking Ahead

In the updated Service Plan 2007/08 - 2009/10, the 2007/08 forecast is based on revenue of $3.10 million and expenses of $3.05 million. The annual report includes a revised forecast for reserves of $900,000, incorporating current information based on 2006/07 actual results.

In accordance with the Shareholder's Letter of Expectations received in June 2006, and in support of the current Service Plan, the PCC will invest revenue growth from property assets into expanding the delivery of province-wide Outreach programs. The 2007/08 plan includes an increase in program funding to $1.1 million (06/07 $1.02 million), including a budget for Outreach of $400,000 (06/07 $350,000).

In meeting its property stewardship responsibilities, the PCC will continue to manage its assets and build reserve capacity to make the necessary investments towards maintaining and enhancing its heritage properties for future generations of British Columbians.

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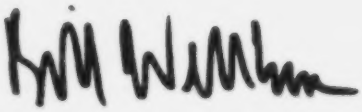
Accountability Statement

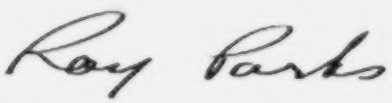
The financial statements of the Provincial Capital Commission have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

Grant Thornton LLP has performed an independent audit of the financial statements of the Provincial Capital Commission.



Bill Wellburn
Chair
June 21, 2007



Ray Parks
Chief Executive Officer

Provincial Capital Commission
Financial Statements

Year Ended March 31, 2007

Management's Responsibility for Financial Reporting

The financial statements of the Provincial Capital Commission have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

Grant Thornton LLP has performed an independent audit of the financial statements of the Provincial Capital Commission. The Auditors' Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Provincial Capital Commission.

Ray Parks
Chief Executive Officer

Richard Crosby, C.G.A.
Chief Financial Officer

Victoria, British Columbia
April 27, 2007

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of the Provincial Capital Commission, and
To the Minister of Tourism, Sport and the Arts, Province of British Columbia

We have audited the statement of financial position of Provincial Capital Commission as at March 31, 2007 and the statements of operations, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information presented in the statements of operations and changes in net assets is unaudited and should not be considered as part of the financial statements on which we have expressed our opinion.

Grant Thornton LLP

Victoria, Canada
April 27, 2007

Grant Thornton LLP
Chartered Accountants

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Provincial Capital Commission
Statement of Financial Position

As at March 31

	2007	2006
		(Note 11)
Assets		
Current		
Cash and short-term investments (Note 3)	$ 2,127,038	$ 2,380,492
Accounts receivable	152,166	99,944
Prepaid expenses	79,554	47,978
	2,358,758	2,528,414
Capital assets (Note 4)	18,023,196	17,949,896
	$ 20,381,954	$ 20,478,310
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 246,974	$ 347,159
Due to Province of British Columbia (Note 8)	91,300	63,306
Deferred revenue	59,971	57,544
	398,245	468,009
Deferred operating contributions (Note 5)	1,122,197	1,162,623
Deferred capital contributions (Note 6)	3,625,036	3,947,064
	5,145,478	5,577,696
Net Assets		
Invested in capital assets	14,398,151	14,191,916
Restricted for Beautification (Note 7)	-	40,000
Restricted for Greenways (Note 7)	95,000	111,222
Restricted for building remediation (Note 7)	-	143,764
Unrestricted	743,325	413,712
	15,236,476	14,900,614
	$ 20,381,954	$ 20,478,310

See accompanying notes to the financial statements including:

- Commitments (Note 9)

On behalf of the Board:

Bill Wellburn
Chair, Board of Directors

Rob Hunter
Chair, Finance and Audit Committee

Provincial Capital Commission
Statement of Operations

Year ended March 31

	2007 Plan	2007 Actual	2006 Actual (Note 11)
Revenue			
Commercial activities:			
Tenants	$ 2,000,000	$ 2,123,472	$ 1,706,798
Parking lots and other	555,000	578,972	528,961
St Ann's Academy	115,000	104,530	99,707
Investment income (Note 3)	55,000	96,109	106,127
Contributions:			
Operating (Note 5)	30,000	40,426	22,286
Capital (Note 6)	145,000	145,271	115,837
	2,900,000	3,088,780	2,579,716
Expenses (Note 2)			
Programs:			
Outreach	350,000	263,299	131,119
St. Ann's Interpretive Centre			
Operating expenses and administration	224,000	202,388	239,036
Amortization	16,000	16,092	16,092
Program delivery and administration	430,000	382,882	314,024
	1,020,000	864,661	700,271
Properties:			
Operating expenses	575,000	625,169	573,942
Amortization	325,000	328,024	250,119
Property management and administration	540,000	527,112	608,351
	1,440,000	1,480,305	1,432,412
Board Governance and Corporate Support:			
Board and committee meetings	45,000	42,503	59,728
Administration	320,000	302,146	284,504
Amortization	25,000	28,545	17,300
	390,000	373,194	361,532
	2,850,000	2,718,160	2,494,215
Excess of revenue over expenses from operations	50,000	370,620	85,501
Grants disbursed from restricted net assets:			
Greenways projects (Note 7)	(111,222)	(5,000)	(105,420)
Beautification projects (Note 7)	(40,000)	(29,758)	-
Total excess (deficiency) of revenue over expenses	$ (101,222)	$ 335,862	$ (19,919)

See accompanying notes to the financial statements.

Provincial Capital Commission
Statement of Changes in Net Assets

Year Ended March 31, 2007

	Invested in Capital Assets	Restricted			Unrestricted	**Net Assets 2007**	Net Assets 2006
		Beautification	Greenways	Building Remediation			
Balance, beginning of year	$ 14,191,916	$ 40,000	$ 111,222	$ 143,764	$ 413,712	$ 14,900,614	$ 14,920,533
Excess (deficiency) of revenue over expenses from operations	(21,359)				391,979	370,620	85,501
Beautification & Greenways grants							
- Selkirk Arbutus Walkway		(29,758)				(29,758)	-
- Lochside Trail Kiosk			(5,000)			(5,000)	-
- Other Greenways Projects						-	(105,420)
Investment in capital assets	227,594			(129,051)	(98,543)	-	-
Transfers to unrestricted (Note 7)							
- Cancelled projects & unspent amounts		(10,242)	(11,222)		21,464	-	-
- Crystal Garden building remediation				(14,713)	14,713	-	-
Balance, end of year	**$ 14,398,151**	**$ -**	**$ 95,000**	**$ -**	**$ 743,325**	**$ 15,236,476**	$ 14,900,614

See accompanying notes to the financial statements

Provincial Capital Commission
Statement of Cash Flow

Year Ended March 31

Increase (decrease) in cash	2007	2006 (Note 11)
Cash flow from operating activities		
Excess of revenue over expenses from operations	$ 370,620	$ 85,501
Exclude: non-cash revenues and expenses		
Revenue from deferred contributions	(391,724)	(138,123)
Amortization expense	372,660	283,511
Change in non-cash operating working capital	(184,315)	(64,633)
	167,241	166,256
Grants from restricted net assets:		
Greenways Program	(5,000	(105,420)
Beautification Program	(29,758)	-
Net cash flow from operating activities	132,483	60,836
Cash flow from investing activities		
Purchase of capital assets, net of contributions	(385,937)	(1,030,742)
Net cash flow from investing activities	(385,937)	(1030,742)
Net decrease in cash and short-term investments	(253,454)	(969,906)
Cash and short-term investments, beginning of year	2,380,492	3,350,398
Cash and short-term investments, end of year	$ 2,127,038	$ 2,380,492

See accompanying notes to the financial statements.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2007

1. Purpose of the Commission

The Commission, established in 1956, operates under authority of the Capital Commission Act of British Columbia and is governed by an appointed board of directors. Eight directors are appointed through Order in Council by the province, and six are appointed by the four core municipalities of Greater Victoria. As a crown corporation, the Commission is accountable to the provincial government of British Columbia, and is exempt from federal and provincial income taxes.

Its mandate is to connect and celebrate the Capital with every British Columbian through the delivery of outreach and engagement programs. The Commission is also responsible for the stewardship of its owned heritage buildings and preservation of the view corridor to the Capital. Revenues from property assets are used to fund core business activities on a self sustaining basis.

2. Summary of significant accounting policies

Basis of accounting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles applied within the framework of significant accounting policies summarized below:

Cash and short-term investments

Cash and short-term investments include cash on hand, balances with banks, and short-term investments. Short-term investments consist of units in Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost adjusted by income attributed to the units, and market value. Income attributed to the units represents the unit holder's share of interest earned by the Portfolio and may be realized upon sale of units. Earned income is based on the performance of the Portfolio investments.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. The contribution of park lands and green spaces is valued at $1. The contribution of St. Ann's Academy, a nationally designated historical site, is valued at $1. Capital improvements to St. Ann's Academy paid for by the Commission are recorded at cost.

Amortization is calculated on a straight-line basis over the assets' estimated useful lives at the following rates:

Buildings and improvements	40 years
Wharves	10 years
Furniture and equipment	5 years
Computer hardware and software	3 years
Specialized equipment	20 years

No amortization is recognized for work in progress on capital assets under development.

The Commission regularly reviews the carrying value of long lived assets and continually makes estimates regarding future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Commission may be required to record impairment charges for these assets.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2007

2. Summary of significant accounting policies (continued)

Expenses

Expenses are presented by core business activity. A description of each core business activity is summarized below:

Programs
Expenses include outreach programs, the operation of St. Ann's Interpretive Centre, and program delivery and administration. Administration for St. Ann's and program delivery includes salaries and benefits for both direct and indirect staff resources, contracted professional support, and other operating expenses. Program delivery also includes an allocation for corporate overhead. Revenues from St. Ann's Academy are applied to subsidize its operation.

Beautification and Greenways project grants are funded from restricted net assets, and payment is authorized when all eligibility criteria have been met.

Properties
Expenses include operating expenses and amortization associated with revenue producing heritage buildings, Belleville Street port facilities, temporary parking lots, and the maintenance of parks and open space properties. Property management and administration expenses include salaries and benefits for both direct and indirect staff resources, professional support including legal, engineering, property management and accounting services, administrative expenses, and an allocation for corporate overhead.

Board Governance and Corporate Support
Expenses include board and committee meetings, employee salaries and benefits, professional services and administrative expenses for corporate operations support, including property expenses for head office at 613 Pandora Avenue. A portion of these corporate operating costs are allocated to Properties and Programs.

Employee benefit plans

The Commission and its employees contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer defined benefit pension plan with approximately 50,000 active plan members and 31,000 retired plan members. The total assets of the plan at March 31, 2006 were $15.9 billion. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767 million. The actuary does not attribute portions of the liability to individual employers.

The Commission also contributes through the provincial government payroll system for employer funded health care, employment and termination benefits as provided for under collective agreements and terms of employment. For 2006/07, the benefits contribution was 24.6% (2006: 24%) of employer salary costs. The Commission's total benefit expense for the year was $167,578 (2006: $161,473).

Defined contribution plan accounting is applied to these benefit plans as the Commission has insufficient information to apply defined benefit plan accounting. As such, the cost of these employee future benefits is recognized as an expense in the year that contributions are paid.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2007

2. Summary of significant accounting policies (continued)

Revenue recognition

The Commission follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Other revenue related to expenses of future periods is deferred and recognized in the period in which the related expenses are incurred.

Financial instruments

The Commission's financial instruments consist of cash and short term investments, accounts receivable, accounts payable and accrued liabilities, including amounts due to the Province of British Columbia. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest or foreign currency risks arising from these financial instruments. The fair market value of these financial instruments approximate their carrying values, unless otherwise noted.

Use of estimates

In preparing the Commission's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

3. Cash and short-term investments

	2007	2006
Cash	**$ 114,351**	$ 24,896
Short-term investments	**2,012,687**	2,255,596
	$ 2,127,038	$ 2,380,492

Investment income of $96,109 (2006:$106,127) reflects an average return of 4.2% (2006:4.2%).

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4. Capital assets

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Land	$ 9,575,220	-	**$ 9,575,220**	$ 9,575,220
Buildings	10,230,583	3,496,867	**6,733,716**	4,165,320
Crystal Garden remediation - work in progress	-	-	**-**	3,114,714
Wharves	458,886	151,976	**306,910**	352,801
Belleville Terminal Project – development costs	175,000	-	**175,000**	175,000
Furniture and equipment	354,385	155,706	**198,679**	65,130
Specialized equipment	567,633	20,182	**547,451**	-
St. Ann's Academy	619,667	133,448	**486,219**	501,710
Park lands & green spaces	1	-	**1**	1
	$21,981,375	$3,958,179	**$18,023,196**	$17,949,896

The current assessed value of Commission properties is $106.8 million (2006: $90.3 million). This includes 60 parcels of land that make up parklands and green spaces with an assessed value of $27.9 million (2006: $22.9 million). The assessed value of land and buildings from other Commission owned properties, including St. Ann's Academy is $78.9 million (land, $49.1 million; buildings, $29.8 million) (2006: $67.4 million).

St. Ann's Academy, excluding the Chapel and Interpretative Centre, is leased for 51 years to the Ministry of Labour and Citizens Services, Accommodation and Real Estate Services (ARES), formerly the BC Buildings Corporation, for $10, in exchange for building renovations completed in 1996. During the lease period, ARES is responsible for property management and capital maintenance of the building. At the end of the lease term all tenant improvements become property of the Commission.

The Crystal Garden building remediation was completed in June, 2006 at a total cost of $3.5 million.

5. Deferred operating contributions

Deferred operating contributions represent unspent contributions restricted by Transport Canada. Transport Canada provided $1.5 million in cash in the 2002 fiscal year for the continued operation of the Belleville Port Facility. The contribution may only be used for eligible expenses to operate the port, as described in the Transport Canada Contribution Agreement dated December 4, 2001. In the prior year, $145,750 was also spent on security improvements to dock facilities leased to Clipper Navigation Limited to bring the Port Facility to minimum standards. Any unused funds must be returned to Transport Canada after ten years of operations. Cash or short-term investments held at the end of the year subject to these restrictions total $1,122,197 (2006: $1,162,623).

	2007	2006
Opening balance	**$ 1,162,623**	$ 1,330,659
Less: wharf improvements	**-**	(145,750)
Less: revenue recognized for eligible expenses	**(40,426)**	(22,286)
Ending balance	**$ 1,122,197**	$ 1,162,623

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6. Deferred capital contributions

Deferred capital contributions represent assets received through contribution or donation from the Province of British Columbia, Transport Canada and other third parties. Significant events are as follows:

- In 2002, Transport Canada contributed $2 million in land, buildings and wharves to the Commission. The $444,000 portion of the contribution allocated to buildings and wharves was deferred and is recognized as revenue on the same basis as amortization expense. The land contribution of $1,556,000 was accounted for as a direct increase to net assets.
- In 2005, Belleville Port Facility wharf improvements in the amount of $145,750 were funded by deferred operating contributions as set out in Note 5, transferred to deferred capital contributions, and will be recorded as revenue to match the asset amortization expense.
- In 2005, the Commission received $1,450,000 from the Ministry of Tourism, Sport and the Arts towards completion of structural repairs to the Crystal Garden. The contribution has been recorded as a deferred capital contribution and will be recorded as revenue to match the associated asset amortization expense. In the current year, revenue of $27,000 was recorded (2006: Nil).
- In 2005/06, contributions received from Crystal Garden Partners Inc. (tenant) for the structural remediation of the Crystal Garden have been deferred and will be recorded as revenue in the current and future years. Under the terms of the lease reassignment to the City of Victoria, the City assumed the tenant contribution from Crystal Garden Partners Inc. in 2007. The balance of $470,818 at March 31, 2007 will be recorded as revenue over the balance of the initial ten year lease term, with the City provided an equivalent credit against future rent payments.
- The balance of deferred capital contributions represents the net book values of the Crystal Garden and other buildings transferred from the Province to the Commission in prior years.

		2007	2006
Opening balance		**$ 3,947,064**	$ 1,819,577
Add: Port Facility wharf improvements		**-**	145,750
Add: Crystal Garden building remediation			
Provincial contribution		**-**	1,450,000
Tenant contribution		**29,270**	647,575
Less: amounts amortized to revenue			
Tenant contribution – Crystal Garden		**(206,027)**	-
Provincial and federal contributions:			
Crystal Garden	$89,810		
Belleville Port Facility	25,680		
Other Contributed Assets	29,781	**(145,271)**	(115,838)
Ending balance		**$ 3,625,036**	$ 3,947,064

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7. Restrictions on net assets

At the discretion of the board of directors, the Commission may restrict net assets for specific uses. Current year activity is summarized in the Statement of Changes in Net Assets.

Greenways and Beautification Programs
Net assets are restricted for Greenway and Beautification projects in the Capital Improvement District that were approved by Orders in Council in prior years. During the year, a total of $34,758 was disbursed. A total of $21,464 in unused restrictions, representing amounts from cancelled projects and partial balances not required for completed projects were transferred to unrestricted use. At March 31, 2007, $95,000 remains committed for the completion of the South Coast Trail Project.

Building Remediation
As part of the Commission's property stewardship responsibilities, the Board internally restricts net assets for building remediation projects. The current year activity was for the remediation of the Crystal Garden, which was completed in the current year. Of the total of $1.35 million authorized by the Board in prior years, an unused balance of $14,713 was returned for unrestricted use.

8. Related party transactions

In addition to the amount due to the Province of British Columbia, the Commission's shareholder, the Commission had the following transactions with the Province and its related entities:

- Rent revenue of $28,738 (2006: $28,738) was received from Ministry of Labour and Citizens Services, Accommodation and Real Estate Services (ARES) relating to St. Ann's Academy. In return, operating costs of $51,971 (2006: $59,242) relating to St. Ann's Academy were paid to ARES.
- Insurance costs of $131,269 (2006: $115,934) were paid to the Ministry of Finance, Risk Management Branch.
- The Province acts as fiscal agent for the Commission and also provides personnel and payroll services. Service charges were $11,422 (2006: $14,300).

9. Commitments

At March 31, 2007, the Commission has operating and capital commitments under various agreements as follows:

- Outreach: commitments under the Student Travel Subsidy program total $61,530. Expenses will be incurred subject to completion of approved travel plans to the Capital by school groups in the 2007/08 fiscal year.
- Salaries and benefits: under the terms of the new BCGEU collective agreement effective April 1, 2006, staff will receive a 3% general wage increase effective April 1, 2007, followed by increases of 2.5% in 2008/09 and 2% in 2009/10.
- Operating leases: the Commission has two operating leases for office equipment. One agreement runs to November, 2010 with a total commitment of $12,000. The other expires February, 2009 with an annual commitment of $5,000 that can be cancelled each anniversary date.

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10. Crystal Garden

On June 26, 2006, the BC Experience at the Crystal Garden opened to the public. The attraction, operated by Crystal Garden Partners Inc. (CGPI), ran into financial difficulty and ceased operation on September 29, 2006. A court appointed Trustee presided over the bankruptcy to oversee the disposition of the tenant's assets. The Royal Bank of Canada, a secured creditor, had registered the lease under the terms of its mortgage agreement with the tenant. On January 31, 2007, the Trustee received two assignment offers for the lease and trade fixtures. The Trustee and secured creditor accepted the offer from the City of Victoria for planned use as an extension of the Victoria Conference Centre. The Commission subsequently approved the assignment and the lease modification agreement required to align the lease terms with the proposed use. The base rent for the initial 10 year term of the lease remains the same, with provision for increase in future years.

Court approval of the assignment occurred on April 10, 2007. All rent in arrears under the lease has been offset against the security deposit and the contribution of prepaid rent paid by CGPI.

A separate lease for the retail gift shops was assigned to CGPI from Crystal Garden Gift Shops Ltd. in June, 2006 and is in arrears. The status of the lease is pending resolution with the indemnifier to the lease.

For the current year, net revenue for the Crystal Garden building was $256,892 (2006: $56,080). A summary of revenue and expenses is as follows:

	2007	2006
Revenue		
Tenants	**$ 573,019**	$ 325,413
Contributions – capital	**89,810**	62,810
	662,829	388,223
Expenses		
Operating	**176,122**	181,154
Amortization	**178,469**	96,528
Administration	**51,346**	54,461
	405,937	332,143
Excess of revenue over expenses	**$ 256,892**	$ 56,080

11. Comparative Figures

Certain 2006 comparative figures have been reclassified to conform to the presentation adopted in the current year.